EX PARTE OR LATE FILED

AT&T

E. E. Estey
Government Affairs Vice President

Suite 1000
1120 20th Street, NW
Washington, DC 20036
202 457-3895
FAX 202 457-2165

DOCKET FILE COPY ORIGINAL

October 2, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

RECEIVED
OCT - 2 1997
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: Ex Parte Presentation, CC Docket No. 96-128

Dear Mr. Caton:

Today Richard Rubin and I, representing AT&T, met with Christopher Wright, John Ingle, Nick Bourne, and Suzanne Tetreault of the FCC's Office of the General Counsel to discuss the above-captioned docket. The attached outline formed the basis of the discussion.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

E Estey

attachment

copy to: Christopher Wright
John Ingle
Nick Bourne
Suzanne Tetreault

RECEIVED
OCT - 2 1997
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Payphone Compensation
Presentation by AT&T
October 1, 1997

I. Introduction

- Initial FCC rules created a huge new liability for carriers and consumers

  - Total cost well over $1 billion annually, including a net increase of at least $750 million after access reductions

- Section 276 requires "fair" compensation and removal of subsidies

- Cost-based compensation is fair

- Consumer interests must be considered in determining what is "fair"

  - Many consumers have now commented in support of cost-based compensation

II. Current Status

- Per-phone compensation period began November 7, 1996

- Per-call compensation scheduled to begin October 7, 1997

- Timely implementation of per-call compensation is in jeopardy due to LECs' failure to provide payphone identification codes carriers need to track, block and bill for payphone compensation

  - Commission ordered LECs to enable PSPs to send payphone specific codes by October 7, 1997, but many LECs want to pass only the "07" code, which is not specific to payphones

  - Carriers' systems cannot recognize "07" calls as payphone calls

  - AT&T planned to begin blocking and per-call billing of payphone compensation about November 1, but cannot do so without receiving payphone codes

III. Payphone Compensation Should Be Cost-Based

- The Commission's analysis last year was in fact based on an erroneous assumption that PSPs' costs for completing local coin calls and originating coinless calls are the same

- The D.C. Circuit looked only at cost factors in reversing the decision on the payphone compensation rate and did *not* sanction "market-based" compensation for coinless calls

- There is *no rational basis* to find that a "market-based" rate for carriers would be the same for both dial-around and 800 subscriber calls; in contrast, a cost-based rate for originating both types of calls should be the same

  - A true blended "market" rate for both types of coinless calls is 10.67 cents per call

- PSPs in fact have monopoly power over carriers of coinless calls

  - PSPs' own arguments assume they have monopoly power over carriers of coinless calls

    "Ramsey pricing" will assure monopoly rates

  - Carriers' right to block does not provide them with equal bargaining power vis-a-vis PSPs

    Blocking in a "market-based" scheme is costly and cumbersome

    Blocking means callers' expectations will not be met

- Carriers' ability to block has been placed in jeopardy, eliminating any possibility that carriers have negotiating leverage or that there is a "market"

- Effective October 7, PSPs will be able to increase rates for local coin calls to recover all the costs of such calls, which will substantially ease PSPs' short-term financial concerns

    - Coin calls are over 70% of total calls from payphones

    - PSPs admit that coin calls drive the economics of payphones

- Cost-based compensation for coinless calls does not threaten payphone deployment, because there are many mechanisms to assure widespread deployment of payphones, including the deregulated local coin rate, semi-public phones (supported by location owners) and public interest phones

IV. Many Costs of Coin Calls Are Not "Joint and Common" with the Costs of Coinless Calls

- D.C. Circuit recognized that there are different costs for coin and coinless calls, and required the Commission to take the differences into account

- The cost differences are significant, because, from an economic perspective, coin and coinless calls are not substitutes; thus coin-specific costs are not "joint and common" with the costs of coinless calls

- Coinless calls do <u>not</u> share in many of the costs of coin calls

    - Coin-specific equipment and maintenance/repair costs and associated overhead and G&A costs

    - Coin collection costs

    - Call completion costs

V. Cost-Based Compensation

- A "bottom up" efficient cost approach is the fairest system

  - Based on costs of newly installed payphones

  - Includes all costs that PSPs actually incur in providing coinless calls

    Use of CPE functions needed for coinless calls (including maintenance of coinless functions)

    Use of local line for dial tone and payphone features

    Maintenance/repair/G&A/taxes for coinless calling

- Many PSPs' reported costs are excessive and unreliable when determining a charge that will ultimately be borne by consumers

  - Up to $5000 or more for a single payphone

- RBOC/GTE/SNET Coalition provided no significant verifiable cost data

  - Commission cannot rely on the Coalition's "analysis" unless it provides specific supporting data that can be reviewed and commented upon

- PSPs' cost surrogates, e.g., 0+ commissions and 0- transfer charges, are not usable for any purpose

- AT&T's bottom up cost analysis yields a rate of 12.2 cents per call at 700 calls/month

- A cost-based "top down" approach should be based on the efficient *costs* (not prices) of coin calls

VI. Avoided Cost Approach

- The predominant "market-based" local coin rate is 25 cents, not 35 cents
- Commenters generally agree on some avoided costs, esp. costs of coin collection
- Substantial disagreement over other costs

  - LECs have manipulated charges for local call completion

  - Commissions should be excluded

- PSPs' claimed cost "onsets" should be rejected

  - Payphone digit delivery costs

  - Payphone compensation "collection" costs

- Avoided costs are 12.5 - 17.5 cents per call

Recommendation

- Require LECs to deliver specific payphone identification digits as required by the Commission's rules, so per-call compensation can be fully implemented

- Adopt a bottom up cost-based approach to compensation

- The Commission should consider all of the issues carefully before acting

  - Issues surrounding payphone compensation are complex and have been further complicated by LECs' refusal to comply with the Commission's rules regarding payphone identification digits

  - New facts and positions have been added to the record, esp. from consumer commenters, and require careful consideration

- Although all parties desire a prompt resolution, no decision will have an immediate impact

  - Payments for calls in October will not be made until April 1998

  - Several carriers are making voluntary payments in the interim

  - PSPs can get increased revenues from coin rates